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POLICY.RES1997M

Motherwell, 24 January, 1997 at 9 am.

A Special Meeting of the POLICY AND RESOURCES  
COMMITTEE

PRESENT

Councillor H. McGuigan, Convener; Councillors Curran, Gordon, Gray, Hebenton, Lafferty, Lyle, McCulloch, R. McKenna, McLaughlin, G. Murray, Pentland, Robertson, Russell and Wilson.

CHAIR

Councillor H. McGuigan (Convener) presided.

IN ATTENDANCE

The Chief Executive, Core Services Officer, Director of Finance, Director of Construction Services and Director of Housing.

APOLOGIES

Councillors Combe, Craig, Griffin, McCabe, Provost Mathieson, Moran and Shaw.

CAPITAL FINANCING CHARGES - METHODOLOGY FOR NORTH  
LANARKSHIRE COUNCIL

1. C There was submitted a report (docketed) dated 16 January 1997 by the Director of Finance (1) advising of the method by which the

capital financing charges contained within the 1996-97 Revenue Estimates, had been calculated; (2) providing a comparison of capital financing charges in respect of the financial years 1996/97

and 1997/98 calculated on both the straight line and annuity methods, and (3) recommending the adoption of an annuity method of calculating capital financing charges for the reasons outlined.

Decided: that an annuity method of calculating capital financing charges be adopted by the Council.

# AGENDA ITEM No. ....!

NORTH LANARKSHIRE COUNCIL

## REPORT

To: POLICY & RESOURCES COMMITTEE	Subject: CAPITAL FINANCING CHARGES METHODOLOGY FOR NORTH LANARKSHIRE COUNCIL
From: DIRECTOR OF FINANCE	
Date: 16 January 1997	Ref: JM/PH/CP

### 1. Introduction

The Capital financing charges contained within the 1996/97 Revenue Estimates are based upon the previous practices inherited from the demitting authorities. The charges to be made for Principal and Interest payments were calculated from individual Loan Debt Records held by these authorities. Principal Repayments were calculated in accordance with straight - line payment over a varied number of years, in accordance with the category of capital spend involved. For instance:-

Purchase of Land	60 years
New Facilities	30/40 years
Improvements	15/20 years
Vehicles	5/10 years
I.T. Equipment	3/5 years

All authorities, with the exception of Strathkelvin who adopted an annuity methodology, calculated their loan repayments using this straight - line methodology.

### 2. Proposal

2.1 It is recommended that the Debt be written down on an annuity basis as opposed to a straight-line basis. The calculation of any annuity repayment of debt means that equal payments combining principal and interest are made each year (this is similar to a mortgage repayment on a house). The straight - line methodology repays a percentage of principal each year, with a reducing cost of interest over subsequent years. The total repayments are therefore initially higher, and reduce throughout the repayment period.

2.2 Adoption of the annuity methodology would spread an even cost of debt incurred by the capital spend over the repayment period, and thereby having an equal impact on council tax payers and tenants over the repayment period.

3. Impact of Annuity Repayments

3.1 The attached appendix I highlights the impact of the estimates for 1996/97 based on the present straight-line method and the costs of an annuity calculation for 1996/97 and 1997/98.

3.2 The overall impact of the comparison is that the level of Debt Repayment is reduced in the initial years:-

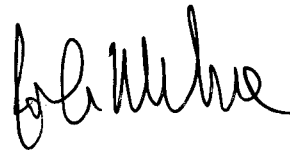
	<u>Housing HRA</u> £	<u>General Fund Services</u> £
Estimate 1996/97	36,005,312	38,577,757
Annuity 1996/97	30,688,140	31,720,837
Annuity 1997/98	31,395,290	33,523,285
Reduction 1996/97	5,317,172	6,856,920
Reduction 1997/98	4,610,022	5,054,472

3.3 Appendix II shows a direct comparison between the straight-line methodology and an annuity calculation, using the profile of the inherited debt from SRC as an example. It can be seen that the annuity method has a lower total cost at both the total payments and NPV methods of calculation. This calculation also highlights the even spread of payments under an annuity compared to the reducing nature of the straight-line method.

3.4 In years to come RSG will of course be adjusted to reflect the revised loan debt annuity method.

4. Recommendation

It is recommended that the committee approve the adoption of an annuity calculation of Loan Debt repayments for North Lanarkshire Council, at the level of detailed in paragraph 3.1.



**North Lanarkshire Council** **Appendix I**

**Comparison of Loan Charges 1996/97 and 1997/98**

	Principal Repayments £	Interest Charges £	Loans Fund Expenses £	TOTAL Capital Financing Charges £
<b>Revenue Estimates 1996/97 (Straight -line method )</b>				
Housing HRA	13,763,682	21,930,275	311,355	36,005,312
General Fund Services	15,247,140	23,172,100	158,517	38,577,757
<b>Probable Outturn 1996/97 (Annuity method )</b>				
Housing HRA	9,478,715	20,887,925	321,500	30,688,140
General Fund Services	8,476,776	22,936,261	307,800	31,720,837
<b>Revenue Estimates 1997/98 (Annuity method )</b>				
Housing HRA	10,531,690	20,555,600	308,000	31,395,290
General Fund Services	9,602,200	23,607,395	313,690	33,523,285

**SRC DEBT**

Appendix II

	straight line method				annuity method				total payments		NPV @ 8.000%	
	opening debt	principal repayments	interest 8.80%	closing debt	opening debt	principal repayments	interest 8.80%	closing debt	straight-line	annuity	straight-line	annuity
	£	£	£	£	£	£	£	£	£	£	£	£
1996/97	155,501,565	8,036,977	13,633,477	147,464,588	155,501,565	4,630,119	13,480,412	150,871,446	21,670,454	18,110,531	21,670,454	18,110,531
1997/98	147,464,588	8,036,977	12,910,149	139,427,611	150,871,446	5,056,321	13,054,209	145,815,125	20,947,126	18,110,531	19,395,487	16,769,010
1998/99	139,427,611	8,036,977	12,186,821	131,390,634	145,815,125	5,521,756	12,588,774	140,293,369	20,223,798	18,110,530	17,338,647	15,526,860
1999/2000	131,390,634	8,036,977	11,463,493	123,353,657	140,293,369	6,030,033	12,080,495	134,263,335	19,500,470	18,110,528	15,480,102	14,376,721
2001/02	123,353,657	8,036,977	10,740,165	115,316,680	134,263,335	6,585,098	11,525,429	127,678,237	18,777,142	18,110,527	13,801,760	13,311,778
2002/03	115,316,680	8,036,977	10,016,837	107,279,703	127,678,237	7,191,256	10,919,270	120,486,981	18,053,814	18,110,526	12,287,123	12,325,720
2003/04	107,279,703	8,036,977	9,293,509	99,242,726	120,486,981	7,853,211	10,257,313	112,633,769	17,330,486	18,110,524	10,921,146	11,412,702
2004/05	99,242,726	8,036,977	8,570,181	91,205,749	112,633,769	8,576,100	9,534,423	104,057,670	16,607,158	18,110,523	9,690,117	10,567,316
2005/06	91,205,749	8,036,977	7,846,853	83,168,772	104,057,670	9,365,530	8,744,992	94,692,140	15,883,830	18,110,521	8,581,539	9,784,551
2006/07	83,168,772	8,036,977	7,123,526	75,131,795	94,692,140	10,227,627	7,882,893	84,464,514	15,160,503	18,110,519	7,584,026	9,059,769
2007/08	75,131,795	8,036,977	6,400,198	67,094,818	84,464,514	11,169,080	6,941,438	73,295,434	14,437,175	18,110,517	6,687,205	8,388,674
2008/09	67,094,818	8,036,977	5,676,870	59,057,841	73,295,434	12,197,193	5,913,322	61,098,241	13,713,847	18,110,515	5,881,634	7,767,289
2009/10	59,057,841	8,036,977	4,953,542	51,020,864	61,098,241	13,319,945	4,790,568	47,778,296	12,990,519	18,110,513	5,158,714	7,191,934
2010/11	51,020,864	8,036,977	4,230,214	42,983,887	47,778,296	14,546,046	3,564,464	33,232,250	12,267,191	18,110,510	4,510,621	6,659,197
2011/12	42,983,887	8,036,977	3,506,886	34,946,910	33,232,250	15,885,009	2,225,498	17,347,240	11,543,863	18,110,507	3,930,236	6,165,922
2012/13	34,946,910	8,036,977	2,783,558	26,909,933	17,347,240	17,347,241	763,279	(0)	10,820,535	18,110,519	3,411,084	5,709,191
2013/14	26,909,933	8,036,977	2,060,230	18,872,956					10,097,207	0	2,947,278	0
2014/15	18,872,956	8,036,977	1,336,902	10,835,979					9,373,879	0	2,533,468	0
2015/16	10,835,979	8,036,977	613,574	2,799,002					8,650,551	0	2,164,792	0
2016/17	2,799,002	2,799,002	125,955	0					2,924,957	0	677,748	0
<b>TOTALS</b>	<b>155,501,565</b>	<b>135,472,940</b>	<b>134,266,777</b>		<b>155,501,565</b>	<b>134,266,777</b>			<b>290,974,505</b>	<b>289,768,342</b>	<b>174,653,181</b>	<b>173,127,166</b>